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# The strategic potential of community-based hybrid models: The case of global business services in Africa

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**Plain language summary**

Firms in latecomer economies, such as Sub-Saharan Africa, often have limited success with traditional business models. We explain why it can be more feasible to adopt a hybrid model in such a region that combines profitability with serving local communities, e.g. by promoting inclusive employment or by targeting underserved markets. Sub-Saharan Africa supports hybrid models and social enterprises mainly through local community resources (e.g. labor, market ideas), community organizations giving access to such resources, and experience with business-community alliances. Hybrid models can benefit from such conditions when business clients and governments support the social mission, and when firms are ready to target niche rather than mainstream markets. We illustrate the business potential of hybrid enterprises based on the case of "impact sourcing" in global business services in Kenya and South Africa.

**Technical abstract**

As a latecomer economy, Africa faces persistent difficulties with catching up in global markets. This study examines the strategic potential of community-based hybrid models, which balance market profitability with social impact in local communities. Focusing on the global business services industry in Kenya and South Africa, and the practice of 'impact sourcing' – hiring and training of disadvantaged staff servicing business clients – we find that while regular providers struggle to compete with global peers, hybrid model adopters manage to access underutilized labor pools through community organizations, and target less competitive niche client markets. We further identify key industry, institutional and firm-level factors that affect hybrid model adoption. Findings have important implications for research on catch-processes in latecomer economies, hybrid models and global business services.



**Key words:**

Outsourcing, Sub-Saharan Africa, impact sourcing, hybrid organizations, local communities

## Introduction

Prior business and development research has shown sustained interest in 'catch-up' processes in emerging economies (Altenburg et al., 2008; Lorenzen and Mudambi, 2013). We understand 'catch-up' as the continuous interplay of national economic policies, industry dynamics, and firm capability development towards greater competitiveness of local firm populations within and across industries. Prior studies have focused in particular on entrepreneurial activities as well as learning, upgrading and innovation within firm populations in support of catch-up (Gereffi, 1999, Humphrey and Schmitz, 2002; Amiti, 2001; Bresnahan et al., 2001; Saxenian, 2005). This research has also been extended into Africa (e.g. Abdulai et al., 2012). Yet, prior studies are quite skeptical about the ability of African businesses to 'catch up' with global competition by upgrading and innovating (Africa Report, 2012). While global cost pressure has led to a concentration of production in Asia and has created barriers to catching up (Altenburg et al., 2008), new business models that have emerged in Africa, such as mobile payment, have not made African businesses more competitive globally (Ozcan and Santos, 2014). As one observer from a consulting firm nicely put it: Africa has yet to find its niche in global markets (Africa Report, 2012). In addition, a recent World Bank study estimated that on average African firms tend to be 20–24 percent smaller than firms from other regions and hence have a reduced potential for job creation (Iacovone et al., 2013). Reasons for such firm level disadvantages have been attributed to lack of infrastructure, access to finance and political competition (Harrison et al., 2014). This seems even more challenging today, since Africa as a latecomer faces global competition not just from Western but increasingly from other emerging economies.

At the same time, prior studies indicate that especially Sub-Saharan Africa has been a fruitful ground for social entrepreneurship (Harris et al., 2013; Rivera-Santos et al., 2015), bottom-of-the-pyramid strategies (Kistruck and Beamish, 2010; Kistruck et al., 2013a), and corporate social responsibility (CSR) initiatives (Gruber and Schlegelmilch, 2015). This is because African businesses have traditionally been strongly embedded in local communities, supporting socially oriented projects through innovative means, such as engaging with community groups or partnerships across sectors, that are better able to bridge problems of poverty and social or environmental concerns (Bitzer and Hamann, 2015). By 'local community' we mean locally bounded groups of people with shared social ties, economic backgrounds, histories, knowledge, beliefs, morals, and customs (Kepe, 1999). Perhaps more than other regions, Sub-Saharan Africa has accumulated experience in community-oriented development initiatives (Juselius et al., 2014; Simplice, 2014), involving government, private business, NGOs and community organizations (Kolk and Lenfant, 2013). As a result, African businesses have become very involved with development and social agendas (London et al., 2004, 2010).

It is therefore not surprising that African firms are among the early adopters of so-called hybrid business models (Holt and Littlewood, 2015), i.e. business models combining profitability goals and social missions (Smith et al., 2013; Lee and Battilana, 2014). Specifically, we focus here on what we call 'community-based hybrids', i.e. hybrid organizations that not only serve local communities but also make extensive use of community resources while serving regional or global markets with their products and services (see also Holt and Littlewood, 2015). While prior research has focused on the social impact of hybrid models in Africa (Rivera-Santos et al., 2015), we know little about the business potential of hybrid models, especially in globally distributed industries and markets. We therefore ask: under what conditions is the adoption of hybrid models a feasible strategic opportunity for firms that operate in Sub-Saharan Africa and serve regional and global clients?

We investigate this question in the context of the increasingly important global business services industry, which provides various services to globally distributed clients, such as tech support, call centers, financial services and software development. This industry has expanded into Africa in recent years (Abbott, 2013; Manning et al., 2015). Within this context, several African service providers have become pioneers of the so-called impact sourcing (IS) model – hiring and training of staff from disadvantaged groups in society for global business services (Rockefeller Foundation, 2013; IAOP, 2014). So-called impact sourcing service providers (ISSPs) are an excellent example of community-based hybrids, as they not only serve but also 'utilize' disadvantaged communities as resources. Based on data from inductive field studies in Kenya and South Africa, and using an extended version of the tripod model of strategic analysis (Peng et al., 2008, 2009), we find that while many regular providers in Sub-Saharan Africa have struggled to stay competitive vs. players in India, Philippines and other emerging economies, firms adopting IS have learned how to serve niche clients – both globally and regionally. Yet, while certain local resource conditions, such as underutilized labor markets, local community organizations, and business ties with these organizations favor the adoption of IS models, we also find that certain moderating factors at the industry, institutional and firm level either promote or constrain the utility of IS vs. regular business models.

Our findings may contribute to future research in three major ways. *First*, we inform the debate on catch-up processes and firm strategies in latecomer emerging economies such as Sub-Saharan Africa (Altenburg et al., 2008; Lorenzen and Mudambi, 2013; Hoskisson et al. 2000) by showing the utility of niche models as an alternative to more scale-dependent low-cost production in mainstream industry segments. We further show, based on the case of hybrids, that competitiveness of firms from and in latecomer economies can be strongly linked to their embeddedness in local communities. However, leveraging such linkages requires both institutional and firm-level openness to using community resources and serving niche markets rather than more scale-dependent mainstream markets. *Second*, we add to the debate on hybrid models (Lee and Battilana, 2014) by promoting a more context-sensitive understanding of their feasible adoption. In particular, we discuss how certain industry conditions may lower the need to scale up hybrids to make them competitive and impactful and instead allow heterogeneous populations of smaller-scale hybrids to emerge. *Third*, we extend prior research on global business services (e.g. Manning et al., 2015) by discussing impact sourcing as a new strategy of local adaptation and differentiation in a highly competitive market.

Next, we discuss Africa's latecomer challenge and the potential of hybrid models. We then introduce the context of global business services along with the model of impact sourcing. This is followed by an analysis of the adoption of impact sourcing in Kenya and South Africa. Findings are then discussed and implications are formulated for future research.

## Africa's Latecomer Challenge: The Potential of Hybrid Models

International business and development scholars continue to take an interest in so-called 'catch-up processes' (Humphrey and Schmitz, 2002; Altenburg et al., 2008; Lorenzen and Mudambi, 2013). This is particularly relevant for Africa, which is widely regarded as a latecomer economy (Abdulai et al., 2012), and which faces competition from both advanced and other emerging economies. In general, we understand 'catch-up' as a multi-level process of economic policy, industrial dynamics and firm capability development enabling firm populations to capture a growing segment of established world markets, move into higher-value production and services, and/or establish new competitive businesses (see also Mudambi, 2008; Humphrey and Schmitz, 2002). In line with this notion, we focus here on the growing capacity of firm populations within particular industries in African countries to attract regional and global clients, and compete with global peers.

'Catch-up' is typically associated with a gradual process of upgrading from low-cost to higher-value production (Gereffi, 1999; Humphrey and Schmitz, 2002). Yet, with increasing globalization of production, many regions, e.g. Latin America, have been unable to compete especially with China's large-scale manufacturing base (e.g. Morreira, 2006). Facing this pressure, some regions have managed to catch up through 'technological leapfrogging' (Amiti, 2001), learning from foreign firms (Altenburg et al., 2008) and utilizing diaspora networks (Bresnahan et al., 2001; Saxenian, 2005). One successful example of the latter is the software industry and IT-enabled service sector in India (Arora et al., 2001; Ethiraj et al., 2005; Athreye, 2005).

By contrast, Africa, in particular Sub-Saharan Africa, has not benefited much from upgrading, leapfrogging or diaspora networks. Traditionally, it has attracted investment mainly in mining and exploitation of natural resources, such as cocoa (see Glin et al., 2015). Compared to that, the share of

African economies in global production of goods and services is still incredibly small, even if, with rising wages in Asia, Africa has attracted more attention as a potential location for manufacturing and services recently (Page, 2012). Yet, many attempts to promote and develop new industries in Africa have been challenged by political instability, corruption, infrastructure deficits, and lack of institutional support (Prahalad and Hammond, 2002, London et al., 2010). One overarching problem with setting up businesses in sub-Saharan Africa – aside from mining and natural resources – has been the lack of distinctive location advantages (Africa Report, 2012).

Conversely, we argue that Africa has an underutilized potential of capitalizing on 'hybrid business models', specifically 'community-based hybrids'. These are organizations that combine profitability goals with social missions (Jay, 2013; Porter and Kramer, 2011; Haigh and Hoffman, 2014), and that not only serve local communities but also make extensive use of community resources in serving regional and global markets with their products and services (see also Holt and Littlewood, 2015). One example is Cookswell, based in Kenya, which markets, produces, and sells charcoal wood-fueled stoves using local communication and distribution networks to reach NGOs and informal networks, while also scaling to both regional and international distribution (Holt and Littlewood, 2015). Other examples include community-based producers of consumer goods with ecological or social impact, such as eco-friendly bamboo bikes out of Ghana (Senthilingam and Hoeferlin, 2015) and rollable water containers in South Africa (Qdrum, 2016).

In general, hybrid models have been described as an increasingly important organizational form (Haveman and Rao, 2006, Haigh and Hoffman, 2012, Pache and Santos, 2013), as they help address social issues when state and philanthropic approaches are limited in their ability to do so (Kickul and Lyons, 2012). Whereas hybrid models have gained importance across geographies in recent years, sub-Saharan Africa was in fact an early-adopter economy, especially for community-based hybrids (see e.g. Holt and Littlewood 2015). There are three main reasons for that: First, African businesses have been rather strongly embedded in local communities, which has enabled entrepreneurs to tap into informal networks, capitalize on inexpensive labor and freely available resources, such as community knowledge (Holt and Littlewood, 2015; Linna, 2012). Second, sub-Saharan Africa has long been an experimental field for social entrepreneurship (Harris et al., 2013a, 2013b; Kistruck & Beamish, 2010; Rivera-Santos et al., 2015), bottom-of-the-pyramid (BoP) models (Kistruck et al., 2013a; Prahalad and Hammond, 2002; Prahalad 2012; London et al., 2010), and corporate social responsibility (CSR) initiatives (Gruber and Schlegelmilch, 2015). Third, sub-Saharan Africa has been a major receiver of foreign aid and development funds, which has further benefited community-based businesses and prompted foreign businesses to engage in BoP models and extensive CSR initiatives in the African context (London et al. 2010). In combination, these dynamics have for example fueled initiatives to better embed mining into local communities thus benefiting economic development (Harris et al., 2013; Hilson 2014, Childs, 2012, 2014), and preventing violations of human rights and environmental degradation (Jønsson and Bryceson, 2009).

However, whereas the social impact of hybrid models, e.g. in the context of BoP, has been addressed in many studies (Kistruck and Beamish, 2010), we know relatively little about the strategic potential of adopting hybrid models compared to more regular business models. We focus in particular on community-based hybrids serving regional and global business-to-business markets. Specifically, we now introduce the empirical case of impact sourcing as a hybrid model in the global business services industry. Using Peng's Tripod Model, we further propose a multi-level comparative analysis to evaluate the potential of hybrid vs. regular models in Africa.

**Analyzing the Potential of Hybrid Models: The Case of Impact Sourcing**

To better understand the strategic potential of hybrid models in Africa we focus in our study on an industry – global business services – that has received increasing attention in recent years as a potential driver of employment and economic development in many emerging economies (Manning, 2013), including Africa (Abbott, 2013). Importantly, African countries have gained experience in recent years with promoting *both* regular *and* hybrid firms in global business services (Abbott 2013; Laciti et al., 2012), which makes this industry particularly interesting to study.

The *regular global business services industry* is a growing industry with a world market size of currently $150 Billion according to the industry association NASSCOM (2015). Facilitated by digitization and commoditization of business processes (Davenport, 2005; Apte and Mason, 1995), and driven by cost, speed, access to talent and other strategic advantages (Doh, 2005; Manning et al., 2008; Kenney et al., 2009), client firms in particular from advanced economies increasingly outsource business processes, such as IT infrastructure, payroll, tech support, call centers, and knowledge work, to specialized providers operating in particular in developing countries (Ethiraj et al., 2005; Athreye, 2005; Sako, 2006). Providers include large players such as U.S.-based Accenture, IBM, and HP; and India-based Infosys, TCS, and Wipro; and many small and midsize providers around the world. Many of them today operate from locations around the world (Manning et al., 2015).

Whereas in the 1990s and early 2000s, India dominated the global services market (Dossani and Kenney, 2007), in recent years, more and more countries and regions have begun to develop service capabilities catering to global client demand (Manning, 2013), including Africa (Abbott, 2013). Drivers include: increasing commoditization of services; growing client interest in alternative locations to avoid hotspots; and internationalization of service providers (Manning et al., 2015). Also, many governments in emerging economies have increased efforts to use this industry to boost employment and economic development (GlobalServices, 2008; Manning, 2013), following the example of India (Bresnahan et. al., 2001; Reddy, 1997; Patibandla and Petersen, 2002).

In Africa, in particular Egypt, Morocco, Kenya, Tunisia, Mauritius and South Africa, have recently entered the global business services sector (Abbott, 2013; Abdulai and Junghoon, 2012). Yet, despite early surprise successes, studies suggest that business services from Africa can hardly compete with established players, such as India and Philippines (Africa Report, 2012). Observers have noted that aside from a few exceptions (e.g. Morocco), most African countries lack competitive advantages compared to established outsourcing destinations (The Africa Report, 2012). In a maturing industry, the latter boast scale, cost and skill advantages. Aside from time zone proximity to Europe and some specific language capabilities, such as French and Spanish in Morocco, African providers have struggled to carve a distinctive niche. For example, the Kenyan BPO sector shrank from initially 45 firms in 2007 to 9 firms in 2012 (The Africa Report, 2012). Part of the problem are high cost and competitive pressure from increasing process commoditization (Manning, 2013), but also the limited ability of regular providers to make use of Africa-specific location advantages.

By contrast, a *hybrid model in business services* – so-called 'impact sourcing' (IS) – is on the rise that may benefit African economies. IS has been adopted mainly by so-called *impact sourcing service providers* (ISSPs) who operate as niche players in global business services, particularly in Africa. Like regular service providers, ISSPs compete for regional and global client projects based on offering low-cost, high-quality services, such as tech support, data entry and analytical work, yet, unlike regular providers, they specialize in hiring, training and using disadvantaged staff from local communities (Rockefeller Report, 2012). "Disadvantaged" refers to various conditions, such as limited access to education, geographic isolation, or physical disabilities (e.g. impaired hearing), which constrain access to regular jobs and careers (Hockerts, 2015). Therefore, depending on the target employee group, ISSPs serve different communities. In any case, IS is a good example of a community-based hybrid model as it serves and utilizes particular communities as resources. Notably, beside self-identified ISSPs, some regular service providers have also set up often locally bounded IS operations. Boundaries between ISSPs and regular providers, especially in the context of Africa and other emerging economies, are therefore rather blurry (Laciti et al., 2012).

One important promoter of the IS model has been the Rockefeller Foundation which introduced IS as part of their Digital Jobs Africa Initiative through pilot projects in Kenya, Ghana, South Africa, and Nigeria (Rockefeller, 2012). The early focus on sub-Saharan Africa followed a long tradition of community-based social projects, education and employment initiatives in that region. In fact, one important role model for IS was the Monyetla Work Readiness program in South Africa – a program specializing in recruiting, screening and placing people from impoverished backgrounds (Impact Sourcing Conference 2011). Since then, IS has become a growing niche market. Forecasts estimate IS to employ 3 million people and capture 17% of the global business services market by 2020 (Avasant, 2012). Samasource, a major ISSP operating in India and Africa, estimates that since 2008 they have employed close to 8,000 IS workers whose incomes have increased 3.7 times over a period of four years (Samasource, 2016). Digital Divide Data (DDD), another important IS player, has hired more than 2,000 youths from Kenya, Cambodia and Laos since 2001. According to DDD, 670 of their staff were able to complete college education while working for them at an average monthly salary of $365 (DDD Impact Report, 2014). At the same time, global clients have expressed growing interest in pursuing IS opportunities in particular in Africa (Bulloch & Long, 2012).

Notably, IS models have also been adopted outside of Africa (Laciti et al., 2012; Kannothra and Manning, 2016), yet African firms remain the main adopters. They share particular features that distinguish them from ISSPs elsewhere. First, they focus on hiring from urban communities, notably young disadvantaged people from slums and townships, and they mostly serve end clients directly. By contrast, Indian and U.S.-based ISSPs mainly practice rural sourcing, i.e. they specialize in hiring from rural communities, and often operate as subcontractors (Laciti et al., 2012; Kannothra and Manning, 2016). Second, African ISSPs have been innovators in aligning client acquisition with IS models. For example, Craft Silicon (Kenya), which specializes in training and hiring part of their staff from an urban slum, mainly markets to microfinance organizations, i.e. clients whose business model has a social component as well (Craft Silicon Foundation, 2016). Similarly, DDD, which focuses on hiring and training hearing-impaired staff who lack education and employment opportunities in an economy like Africa, targets mainly public service organizations, such as libraries, for whom they do non-voice data entry and analysis that are customized for the needs and limitations of their staff. By contrast, many Indian ISSPs have not managed to create lasting synergies between their IS staffing model and their client acquisition strategy (Kannothra and Manning, 2016).

Yet, we still lack an understanding of how African ISSPs have been able to effectively build and serve an IS market and under what conditions in the context of sub-Saharan Africa IS models have in fact been superior to regular business models in serving regional and global outsourcing clients. To analyze this question we use Peng's Tripod model (Peng et al., 2008, 2009) as a framework as it allows for a multi-level analysis of institutional, industry and firm dimensions in affecting strategic options within firm populations. Such a multi-level analysis also corresponds with the idea that catch-up processes are driven by the interplay of economic policies, industry dynamics, and firm capabilities. However, the Tripod framework is not a predictive model but rather a sensitizing device that 'suggests directions along which to look' rather than 'prescriptions of what to see' (Blumer, 1954, p. 7). We further bring attention to the fact that each 'leg' of the tripod model can be analyzed from a local, domestic/regional and global perspective. We thus attempt to contextualize the sub-Saharan business services industry within a dynamic global business context.

The first leg of Tripod refers to *economic and industry conditions*. Similar to Porter's work on the competitive advantage of nations (1990), and the ongoing debate on geographic clusters (see e.g. Porter, 2000; Iammarino and Clark, 2006; Lorenzen and Mudambi, 2013) this dimension points to the importance of availability of labor and other factor conditions, size of potential markets, customer demand and other related factors in influencing strategic options of firms. Here, it will be particularly important to understand the interplay of global or regional client demands for business services and local economic conditions, such as labor markets. For example, to what extent does the African economic context provide certain advantages for community-based hybrid businesses in serving regional or global clients respectively? And to what extent do industry and economic conditions differ in different African countries, leading to different levels of hybrid model adoption? Specifically, we focus in this study on the contexts of Kenya and South Africa.

The second leg refers to *institutional conditions* and their enabling and constraining effects. Following Peng et al., (2008), we pragmatically pull together both economic and sociological perspectives on institutions: Whereas the former focus on formal and informal "rules of the game", including sanctions and incentives (North, 1990), the latter emphasize how institutions in terms of relatively stable norms, rules and frameworks give meaning and help actors manage uncertainty (Scott, 1995). In our study, we look in particular at the importance of informal infrastructures, such as the role of local community organizations, and economic policies and funding programs. In this regard, both global and domestic/local institutional conditions are important. To what extent, for example, do global institutional conditions complement or compensate for domestic/local institutional conditions in supporting hybrid businesses in the context of business services? To what extent do institutional conditions differ across African countries in a way that affects the adoption of hybrid models, in conjunction with economic and firm-level factors?

The third leg in our model are *firm resources and capabilities*. While we follow the notion that firms develop certain capacities that are more or less unique, valuable, and hard to imitate (Barney, 1991; Wernerfelt, 1984), thus explaining firm heterogeneity, we also stress the fact that firm resources and capabilities may co-evolve with industry and institutional conditions in particular geographic and industry contexts (Volberda and Lewin, 1999; Jacobides and Winter, 2005). In this study we are particularly interested in how resources and capabilities of certain firm populations – rather than individual firms – affect their strategic opportunities, in conjunction with industry and institutional conditions. Two central sub-populations we compare are service providers in Kenya and South Africa respectively. For example, we seek to understand to what extent their specific strategic orientations and capabilities, along with economic and institutional factors, make them more or less inclined to adopt hybrid models. In this regard, we also seek to understand what role access to local community resources plays (see e.g. Kistruck et al., 2013b; Holt and Littlewood, 2015; Linna, 2012). Also, how does ownership structure and origin of firms matter: to what extent do locally grown firms make use of community resources differently than firms with foreign headquarters?

## Data and Methods

We adopt a qualitative case study approach to examine under what conditions the adoption of hybrid models has been a strategic opportunity for firms that operate in Sub-Saharan Africa and serve regional and global clients, based on the case of global business services operations in Kenya and South Africa. Qualitative methods can be used to explore complex phenomena about which little is known and/or about which a novel understanding is needed (Strauss and Corbin, 1998; Maxwell, 2013).

Specifically, we use an embedded multi-case design (Yin 2003) to generate and differentiate findings in line with the tripod model of strategic analysis (Peng et al., 2008). We selected both hybrid and regular service providers across two country contexts – Kenya and South Africa – to better understand how firm resources/capabilities, economic and institutional conditions jointly affect the adoption and strategic potential of hybrid models. We selected Kenya and South Africa as our two country contexts because both countries share important similarities that qualify them as appropriate case contexts for our study. First of all, they are two of the major destinations for business services in Africa (Abbott, 2013). Also, they both share similar location conditions, such as high English literacy and a fairly well developed IT infrastructure. Finally, which is particularly important for our study, both countries have been a preferred experimental ground for IS models. In particular, IS experiments in South Africa became a role model for Rockefeller Foundation in establishing and supporting IS as a business model, and Kenyan service providers were some of the first major adopters of IS models in Africa, partly in collaboration with Rockefeller Foundation.

The two countries also differ in two important ways which makes them interesting contexts to compare and which is also reflected in the selection of interviewed firms from each country. First of all, despite comparable early experiences in IS, the IS model has been much more widely adopted by service providers operating in Kenya than by those operating in South Africa. While we were able to interview firms with both regular and IS models in both country contexts, the majority of case firms in Kenya are ISSPs, whereas the majority of firms in South Africa self-identify as regular providers. This remarkable difference motivated us to better understand key factors promoting or hindering IS model adoption. Second, the business service industry in Kenya is dominated by locally or regionally owned, small or mid-size providers serving diverse regional and international clients, whereas the South African provider population is dominated by relatively large, mostly foreign-owned call center operators serving mostly European clients, specifically from the UK. As we show below, this difference has had a profound effect on the extent to which hybrid models have been adopted. Yet these firm-level effects cannot be seen isolated from important industry and institutional contexts which we also examine in detail below.

>>>>>>>>>>>>>>>>>>>> INSERT Table 1 <<<<<<<<<<<<<<<<<<<

Table 1 gives an overview of all service providers included in this study. In total, we studied 12 service providers operating in South Africa or Kenya: 4 ISSPs, 6 regular service providers, and 2 special cases of firms operating as ISSPs locally, while running as regular providers outside of Africa. Services of ISSPs range from data entry and analysis, e-publishing and transcription, to IT services and software development. Importantly, all providers serve external clients, yet the clients served may range from regional to global, from businesses to governments, NGOs and public service organizations. We categorized most providers based on their self-descriptions – in interviews and on websites – as well as secondary data, specifically other studies and reports on IS (e.g. Laciti et al., 2012). As for the two special case firms, their specific model became apparent through interviews with firm representatives and expert industry observers. We discuss them in detail below. Table 1 lists all providers (anonymous) and informs about whether a provider is locally vs. foreign-owned, which clients are being served, which services are provided, and how the IS or regular sourcing model is implemented.

Importantly, we selected case firms in two rounds of data collection whereby we followed a 'replication logic' (Yin 2003) towards a 'generalization in small steps' (Diesing, 1971). For the first field trip and round of data collection in Kenya (in 2012), we selected four ISSPs and one regular provider, most of which were small and locally owned. Firm selection was based on secondary reports on important ISSPs in Kenya (Laciti et al., 2012) as well as recommendations from the national ICT board. The second round of data collection in South Africa (in 2014) combined principles of 'literal replication', i.e. adding cases from the same category to increase external empirical validity, with 'theoretical replication', i.e. adding cases that differ in theoretically relevant ways to differentiate findings (Yin, 2003). Specifically, we selected one ISSP and five regular providers, whereby two of the latter have adopted hybrid recruiting principles. This allowed us to increase the sample of regular providers in support of a more robust comparison of strategic challenges and opportunities of hybrid vs. regular providers operating in Africa. Also, most selected firms were rather large, and mostly foreign-owned, which allowed us to identify important differences in structural conditions affecting small and locally-owned vs. larger, foreign-owned providers. Similar to the first round, the selection of cases was in part based on prior studies of hybrids (Laciti et al., 2012) and recommendations from Rockefeller Foundation and the national outsourcing association.

Main data source were semi-structured interviews with senior managers at service provider firms, complemented by interviews with policy-makers, foundations and other institutions. In total, we conducted 26 interviews of about 1 hour each (on average). In addition, we screened available materials on the development of the regional business services industry. In Kenya, we conducted 13 semi-structured interviews with managers of both ISSPs (4) and regular service providers (2), as well as policy-makers and ministry staff members (5) and industry experts (2) from local universities in the capital Nairobi. Typically, each firm was interviewed once, in some cases multiple interviews were conducted with firm representatives. The selection of interview partners reflected the three dimensions of the tripod model: Policy-makers, e.g. the Kenya ICT Board, and industry experts, e.g. university professors, were interviewed to better understand industry conditions and institutional environments. Interviews with IS and regular providers focused on firm resources and capabilities, client-seeking and growth strategies, employment and training practices, and major managerial challenges. We used standard interview templates for each group to increase reliability in the data collection process. Replicating this data collection design in South Africa, we used the same interview templates, again yielding 13 interviews based on the same selection criteria – with both mainstream providers (5), ISSPs (2), representatives of a major industry association (3), local representatives of the Rockefeller Foundation and other industry experts (3). All interviews were transcribed verbatim.

For data analysis, *first*, a cross-tabulation of responses was carried out across case firms and countries. The tripod model served as a grouping device for data coding: Interviews were coded for information on the perception of economic and industry conditions, institutional conditions, and firm resources and capabilities, including client-seeking strategies, hiring and training practices. *Second*, a comparison of findings was conducted across the two major case populations of Kenyan vs. South African providers, whereby we paid special attention to differences related to the business model, size and ownership of providers. *Third*, following the practice of axial coding (Corbin and Strauss, 2008), we analyzed and theorized similarities and differences in strategic opportunities and constraints across the South African and Kenyan populations of service providers. We thereby focused on how different constellations of factors across all three tripod dimensions have influenced strategic opportunities and constraints for hybrid models. Based on that analysis, we first identified important facilitating conditions across the contexts of Kenya and South Africa, specifically: underutilized resources from local communities (industry level), strong presence of local community organizations (institutional level) and business ties with these organizations (firm level). We then identified combinations of industry, institutional and firm-level factors explaining differences in strategic opportunities for hybrid models in Kenya and South Africa. These findings form the basis for our theorization of multi-level factors affecting hybrid model adoption in Africa (Eisenhardt, 1989)

We addressed issues of reliability and validity in various ways (Yin, 2003). As for reliability in data collection, we used a standard procedure (interview template and data protocol) to increase reliability independent of interviewers. To increase external validity, a replication logic was applied as described earlier through two consecutive rounds of data collection. As for construct validity, we managed to discuss emerging constructs, such as the above-mentioned multi-level conditions of hybrid model adoption, with interviewees in the second round of data collection. Our analysis also has some important limitations which we discuss in the final section.

## Major Findings

We now apply the tripod model to analyze similarities and differences between the Kenyan and South African institutional, industry and firm-level conditions affecting the adoption of IS models. Table 2 serves as a guide for the following analysis. It reports important similarities and differences between Kenya and South Africa along the three tripod dimensions that help understand enabling and constraining conditions for hybrid model adoption. We now discuss each tripod dimension.

>>>>>>>>>>>>>>> INSERT TABLE 2 <<<<<<<<<<<<<<

### *Economic and industry conditions*

Service providers in Kenya and South Africa (SA) share certain *similarities* in terms of the economic and industry conditions they face (Table 2). First, both SA and Kenyan providers face the challenge of being latecomers in a global competitive market. Especially, the Philippines is regarded as a major second-tier competitor attracting outsourcing projects. Importantly, global competitive pressure has affected both mainstream providers and ISSPs, yet the pressure to match global competition has been particularly high for regular vendors. The CEO of one major call center in Kenya remembers:

> "For the demand side, there were definitely challenges. And the challenges really came from unfamiliarity and ignorance in many ways, and unawareness. So the businesses in the States and the UK, they had no idea that Kenya was a destination." CEO, Kenyan Regular Service Provider 1

At the same time, both countries have rather large underutilized labor pools in impoverished, mostly urban or suburban, areas. While this potentially favors both IS and regular business models, it is of specific relevance to IS models, which aim for inclusive employment. For example, about 42 per cent of young people under the age of 30 are unemployed in SA (National Treasury, South Africa, 2011). Interestingly, the basic qualification of many unemployed youth is very suitable for service jobs. Not only do many enjoy good basic technical education, but also good English language capabilities, while also being in need of further training and employment opportunities:

> "So the kids from the slums have […] been at second grade schools […]. Usually public schools, but also some mission schools. […] It's also that their whole environment, you know they are watching TV in English, they are going down to the local side ground on the weekend. So not everyone, but when we give people tests and then we select, it's not difficult to find people who are really good in this" CEO, Kenyan ISSP 1.

> "Whether we want to get agents, supervisors, quality managers, project managers, marketing, IT whatever. Every job we ask for we get 200, 300 CVs like that. So we have many avenues and we don't even need to use many of the avenues. […] So it's very easy. It's very easy to find people." CEO, Kenyan Regular Service Provider 1.

However, providers in both countries continue to face the challenge that IS is still a relatively young business model. It is thus only just becoming a strategic consideration for many global clients who seek to couple their sourcing with CSR strategies. In contrast, low-cost and quality criteria dominate client decisions regarding sourcing location and provider. As of today, socially responsible sourcing is seen as a 'bonus' by many clients, adding to rather than substituting bottom-line criteria:

> "So they care a little. They […] do not like the idea that they'll be sending work to some digital sweat shop. […] They like that our workers see the work as an opportunity to improve their lives and are keen to come to work […] And then there are those who say I don't really care as long as my work is done you know on time and on good quality. And those are the ones who we seem to be working with." CEO Kenyan ISSP 1

> "When they come down here […] and you take them into the townships, you generally see them leave with a lump in their throat […] like they do in the UK where they once a year, you know, Red Nose Day, […] show pictures of kids starving and mosquitoes all over them. It doesn't work in corporate UK" South African Industry Expert.

By comparison, a growing local and regional client market is providing increasing opportunities for both ISSPs and mainstream providers. In part, this is because regional providers have better access to such clients, but also because 'local content' regulation in part demands the use of local suppliers.

> "Right, because they want to improve the employment, improve the business environment so that they can support local industries in the area. […] If an international company wants to be in the local tender, […] especially a Kenyan government tender, they have to have a tie up with a local company." CEO Kenyan ISSP 2

Importantly, these local or regional clients are rather diverse – from governments to businesses to NGOs – with equally diverse service demands – from call centers to data entry, admin support and software development. For example, one Kenya-based ISSPs has been producing e-books for the National Library, utilizing hearing-impaired staff. As we discuss further below, diversity in local and regional (as well as global) client demands provides an important opportunity for ISSPs. Kenyan rather than SA providers have taken advantage of this opportunity.

Aside from several similarities, there are important *differences* in industry conditions between SA and Kenya in affecting the adoption of hybrid models (see Table 2). One major difference lies in the global image of each country. SA has become known mainly for 'voice' services, i.e. call centers, for UK clients, which has to do with cultural affinity with the UK and established organizational ties:

> "Traditionally South Africa is about voice. […]. If you want cheap go to India, because it's commercially far more understood […] I think our delivery is about good quality voice […] with a person that can genuinely engage with somebody in the UK. […] There is a cultural affinity." CEO, South African Regular Service Provider 1.

This image has promoted call center capabilities but hindered differentiation into other mainstream or niche services. Importantly, the focus on voice targeting UK clients has also limited the usability of IS staff. Coming from impoverished backgrounds, IS staff often do not match global client expectations of standard English accents (despite available reading and writing skills). Also, lack of cultural education is associated with overall lack of communication skills:

> "[IS staff] would give everything to have a kind of job in a call center, but he cannot speak properly. So we can't put him in the call center. You face that problem continuously when you go into […] township areas. Those people's voice skills do not allow them to be on the call center. […] There

> is [also] cultural training. There is listening skills. There is questioning techniques. There is understanding. It goes around all the different aspects of the soft skills for call centers" CEO, South African Regular Service Provider 2.

By contrast, Kenya has not developed a particular reputation for any service expertise. However, more than SA, Kenya has become known as a center of development and NGO work, which has arguably promoted IS adoption and the acceptance of ISSPs by both global and regional clients. At the same time, it has made it more difficult for 'mainstream' providers to land client contracts, who do not openly support the development agenda expected by certain clients. For example, after some early surprise success, one regular provider we interviewed was unable to scale up and attract new client projects, partly due to cost disadvantages, but also due to the limited business reputation of Kenya vs. its image as the 'NGO capital of the world'. The CEO explains:

> "A big company like American Express would not see a lot of stuff happening about Kenya being a destination. They won't see the call center, BPO, society or association. […] Kenya is […] the NGO capital of the world, which means that it is very much of an NGO way of thinking. So, so many of the foreigners, expatriates and so on are in that space. And the way they think is different from the way people think on Wall Street or in London in the city. […] And all the people pick up on it because they really care about helping people when it comes to Africa at the moment." CEO, Kenyan Regular Service Provider 1.

In sum, despite similar economic conditions, in particular the availability of underutilized labor pools in impoverished areas, differences mainly in the perception of Kenya and SA as outsourcing destinations in the eyes of global clients have favored IS practices in Kenya, and hindered them in SA. Yet, only in combination with institutional conditions and firm resources and capabilities, these differences have turned into strategic opportunities or challenges for IS models.

### *Institutional conditions*

The institutional environments facing providers in Kenya and SA, again, share important *similarities*. In both countries, community organizations have a long tradition. These informal infrastructures have been critical for many ISSPs in setting up their operations. For example, many ISSPs in Kenya work actively with local community organizations to recruit staff from urban slums (see also below). The Maharishi Institute in SA, which today operates as a training institute with an attached call center (Invincible Outsourcing), not only works closely with community organizations in recruiting students from impoverished families (their target group) but also serves itself as an important 'community intermediary' in contracting with other businesses interested in utilizing IS staff.

At the same time, and quite interestingly, ISSPs in both countries have enjoyed very little local government support. Reasons are manifold – from intentional government ignorance of education and employment needs in slums and townships, to aspirations of promoting a more prestigious mainstream industry to global clients. This becomes obvious when reading for example Kenyan's vision 2030 where business process outsourcing is given an important role, without mentioning the potential of IS as part of that strategy (Thugge et al., 2009). Likewise, incentives of the SA government have targeted (and benefited) mainstream call center operators rather than ISSPs (Vermeulen, 2015). Governments' perception of why foreign clients would buy from (or establish) businesses in SA (or Kenya) have played an important role here. The chair of a major SA outsourcing association elaborates:

> "If I am set in South Africa, I will not be successful if I say to a CEO of a company move your business to Cape Town, because you will be helping some poor little African boy, you know, that CEO is going to look at me and say, do you know how I built this business? It was not being nice to people. It was by making calculated mean decision, so I'm a bit skeptical about the marketing of impact." Chair of SA Outsourcing Association.

In light of this situation, global sponsors – both non-profit and private – have become critical players in promoting IS practices in both countries. In this regard, it is interesting how especially Rockefeller Foundation, Microsoft and Google have collaborated in supporting IS initiatives. In some cases, they would serve directly as co-sponsors of ISSPs:

> "One is that Rockefeller Foundation gave us a grant for the initial set up capital, and we've received a couple of additional grants from Cisco, Microsoft and Google, both in hardware, software and actually in cash as well, to support to set up this." CEO, Kenyan ISSP 1.

In other cases, especially in SA, Microsoft for example has taken initiative in establishing an e-learning platform for youth in townships. Rockefeller has identified this initiative as a way to boost youth training and employment by both ISSPs and regular employers. For the same reason, one major SA outsourcing association is planning to contract with Microsoft to collaborate on training youth:

> "We [..] are in the process of signing a deal with Microsoft. So Microsoft have got an amazing portal which would open up opportunities for hopefully thousands and thousands of kids because on that portal you are going to get free e-learning programs. On that portal you will get help on how to create a CV and workshop work, workplace readiness programs." Chair of SA Outsourcing Association.

Yet, there is an important *difference* between the Kenyan and SA institutional contexts. Whereas Kenyan policies have neither actively promoted nor hindered the emergence of ISSPs, certain policies in SA have not only favored regular business models but, in part unintentionally, made the adoption of IS models more difficult. For example, the SA government has given tax incentives for service providers targeting global clients for every seat they can fill (Vermeulen, 2015). This policy has promoted large-scale operations, especially benefitting call centers. Operations of 800 or 1,000 seats are typical. While this policy was designed to support employment pragmatically and facilitate large client contracts, in competition with India or Philippines, it has rather unintentionally hindered service differentiation, e.g. into non-voice services, and made SA more dependent on their call center business. As an important side effect, this has also prevented major players from targeting more regional clients and possibly from differentiating their portfolio in the process, including the use of IS staff.

Furthermore, targeting more regional clients has ironically been hindered by the so-called 'Black Empowerment' (BE) law which demands a certain percentage of staff to be black in order to be eligible for serving the local market. While this policy, in principle, works in favor of IS business models, since it would encourage the hiring of staff from impoverished communities, most of which are black, it conflicts with the strong orientation of the SA business services industry towards large-scale voice services catering to global clients. This is because the latter typically demand highly educated staff with standard English accents, which has favored the employment of white people from urban areas. Even though there is a growing local and regional client market, BE laws would present significant switching costs for globally oriented businesses to differentiate into serving more local clients, with a potentially wider array of services:

> "We had a bid for local business [to serve an] airline. […] It comes to us because we have been around so long. […] The problem is we obviously we don't have [black empowerment]. The whole management, ownership structure is white and European. So, we cannot actually get that business unless we have to go into partnership with somebody." CEO South African Regular Service Provider 3.

Only more recently, the trend has been shifting with several larger clients, not least Microsoft, taking an interest in further penetrating the SA market. One major SA call center recently landed a tech support contract with Microsoft involving 2,500 seats globally. As part of their own CSR initiatives and because Microsoft is targeting local customers with these services – and therefore needs to meet BE laws – they demanded the use of IS staff from the SA call center.

> "They went out with a [proposal] to say, 'Alright, we want to do something different.' […] We responded to it to say, 'Yes we can run it out of South Africa and we can tick the boxes from the point of view of the impact sourcing piece.'" CEO, South African Regular Service Provider 1.

In conjunction with increasing regional client interest, BE laws are thus turning from a burden to a potential facilitator of IS practices, implemented partly through mainstream providers.

In sum, whereas SA and Kenya share several similarities in institutional conditions affecting IS models, including the presence of local community organizations and the availability of global funding (that in part substitutes for lack of local government support), one important difference are SA tax incentives which have favored globally oriented mainstream businesses and neutralized the potential gains from BE laws which could favor IS models.

### *Firm resources and capabilities*

Finally, both Kenyan and SA provider populations share *similarities* in terms of how some of their firm-level resources and capabilities favor the utilization of hybrid models. In particular, many, especially locally grown, providers in both countries have established connections with training and community organizations, which facilitate recruitment and training of IS staff. For example, one

Kenya-based ISSP utilizes connections with multiple NGOs to recruit from different disadvantaged groups – here: slum kids and hearing-impaired:

> "So we hire through […] NGOs that work in the slums. And then the other set are, hearing impaired, the deaf. And again there's an NGO you know for the deaf that we hire through." CEO, Kenyan ISSP 1.

In SA, multiple service providers also maintain connections with community organizations, mainly through personal connections. Yet only more recently these connections have come to fruition. For a long time, they would stay rather dormant.

Another important similarity among ISSPs in SA and Kenya is their ability to promote loyalty and dedication of their IS staff to learning and performing well in the organization. In an industry where employee turnover is very high, which drives up re-training costs and endangers client contract renewal, loyal and dedicated staff is a particularly valuable asset:

> "I'm going to say that they love typing their names, but they see the whole job as a big opportunity, and they tend to also therefore to be very dedicated and hard-working and be with us for the long term, unlike I mean I'm sure you know [...] in India and the Philippines …" CEO, Kenyan ISSP 1.

The major *difference* between SA and Kenyan providers relates to their size and ownership structure which have impacted the feasibility of IS models in multiple ways. In Kenya, most vendors are locally or regionally owned, and rather small. This has been a disadvantage in the regular business services market. Not only do vendors from India and the Philippines enjoy greater brand reputation, but clients typically prefer contracting with large vendors with a sufficiently large number of seats available for the job. Scale is particularly important for call centers and tech support, but also for financial services, data entry and other highly standardized processes, not least to drive down costs. Interestingly, even *Kenyan* clients would often avoid Kenyan providers due to their lack of brand power and size; instead, they would look for providers from India and Philippines. A provider CEO comments:

> "It will take some time for us to penetrate into the larger banks because people would always look for a reference. […] I think there is still some level of resistance by the larger banks to promote the local companies because that attitude is that a local company may not be able to handle large projects." CEO, Kenyan ISSP 3.

In face of that challenge, promoting high productivity and low staff turnover have become important factors in attracting clients. In addition, Kenyan ISSPs have targeted niche client markets where scale is less of an issue, but competence in specific, more customized services becomes important:

> "We are not at the lowest price and the biggest scale, but maybe we can do well in certain niches that the Philippines is […] We are not going to be able to put 15,000 people to work on some data entry project. […] So we have to be in things that are a little more specialized, where the market is smaller, where the teams that the clients need are smaller." CEO, Kenyan ISSP 1.

As a result, Kenyan ISSPs have developed capabilities in a diverse array of services targeting a mix of local and international clients: be it software services for governments; e-books and genealogy data entry for public libraries; or financial data entry for micro-finance organizations. This has benefited IS models, since IS staff, on the one hand, may lack certain skills needed for services with direct customer contact (such as voice call), but, on the other hand, their willingness to train in less mainstream services is higher thanks to their loyalty and long-term dedication to learn. Over time, Kenyan ISSPs have thus been able to develop a strong brand reputation within particular niches, like this example shows:

> "In terms of microfinance, our brand value is very high […] you walk into any microfinance, any good sized microfinance or well informed microfinance would always know about us." CEO, Kenyan ISSP 3.

By contrast, SA service providers, partly thanks to the brand of SA as call center hub and thanks to tax incentives targeting large-scale and globally oriented operations, have been specializing in developing and maintaining large-scale voice service capabilities, hindering the use of IS staff. In addition to industry and institutional conditions driving this dynamic, the fact that many SA providers are delivery units of foreign-owned global operations has further amplified their specialization in mainstream voice services. For example, many SA call centers are part of a global service network with a certain division of labor: whereas Indian subsidiaries focus on IT and other non-voice services for global clients, thereby exploiting their skills advantages, the mandate of the SA operation has been largely limited to voice services to European, mainly UK-based, clients:

> "So we work across – that's our geographical footprint. In terms of work in India, […] there is a common perception that the non-voice staff are in India. [Clients] are complaining about the

> experience of voice into India. And the economic perception is you can put non-voice into India. […] There are certain things non-voice India will avoid: the flow to South Africa from a competitive perspective like finance and accounting and that kind of stuff." CEO, South African Regular Service Provider 4.

Only more recently, the increasing interest of major clients, such as Microsoft, in entering the SA market and a possible revision of the government tax policy, have prompted SA vendors to consider the IS model more seriously. Interestingly, in particular a number of mainstream providers are now developing IS models in SA to better tap into the domestic market and to utilize related advantages of IS models, such as high staff loyalty.

> "So where we can put them into a domestic programs where they would fit in and can actually work within the call center. [..] Very few of them would be able to make it into the international programs. So it's more the domestic clients where these people can fit in […] I prefer them to be honest because their tenure tends to be longer. Their dedication of work ethic is a lot better." CEO, South African Regular Service Provider 2

To implement IS models domestically, these providers would make use of existing connections to training and community organizations. For example, the provider who landed a major Microsoft deal decided, based on existing interpersonal ties, to collaborate with a local training center in order to secure recruitment of IS staff and to satisfy IS demands of Microsoft:

> "I work with ComEducate [name changed], so we're already utilizing people who've come through that channel of recruitment and we could obviously then utilize them on the Microsoft account, so we could tick that box. We also already run Microsoft Training out of the center here." CEO, South African Regular Service Provider 1

Similar, another company is further developing an existing joint venture with the SA-based Maharishi Institute, which includes involvement in curricula and a procurement contract that ensures meeting criteria of BE regulation, including black ownership participation:

> "We had our trainers go in and assist setting up the whole training program. Then […] we sourced some of our people through them. So we try and use them as a sourcing company for us. […] And part of that is also to support […] Black Empowered with 100% black ownership." CEO, South African Regular Service Provider 2.

In sum, despite similarities in having established connections with community organizations, favoring IS models, providers in Kenya rather than in SA have more strongly focused on IS models, partly because, unlike SA providers, they lacked the size and global reputation needed to compete with mainstream competitors. By contrast, mostly foreign-owned SA providers have specialized in large-scale mainstream call center services and only more recently built up IS branches in response to increasing interest of global clients.

***Strategic opportunities and constraints***

Based on the above analysis, we are able to identify both facilitating and constraining constellations of economic, institutional and organizational factors affecting the adoption of IS models by business service providers in Africa. Some of these are similar across the two case contexts of SA and Kenya. Specifically, we find that service providers in both countries face similar constraints: limited global client trust in African providers and lack of client knowledge about IS (industry), and lack of local government support in IS models (institutional). At the same time, they also enjoy similar conditions favoring especially IS models: underutilized labor pools in impoverished areas (industry); presence of community organizations providing access to IS staff, and global sponsors supporting IS models (institutional); and business ties to community organizations and ability to develop highly loyal IS staff (organizational). Yet, despite these similarities, the Kenyan service provider population has more widely and successfully adopted IS models than the SA provider population. This has to do with certain more country-specific combinations of tripod factors that promote or hinder IS practices.

In Kenya, in particular the image of Kenya as NGO-driven development hub (industry), and the niche orientation of mostly small and locally grown ISSPs serving regional and international clients (organizational), combined with available global funding (institutional), have helped IS models grow into a strategic advantage compared to regular models. These factors work interdependently. Global sponsors like Rockefeller have been interested in supporting local businesses with community ties, and their focus on Kenya has been amplified by its image as development hub. This, combined with the *lack* of visible, large-scale mainstream service capabilities, have prompted ISSPs from Kenya to focus on niche capabilities benefiting IS staff and targeting niche clients who value long-term, custom service contracts and loyal staff. By contrast, in SA, certain conditions have hindered IS models, despite otherwise facilitating conditions. Specifically, the reputation of SA as a mainstream UK call center hub (industry), government policies supporting large-scale, globally oriented operations through tax incentives (institutional), and mostly foreign-owned providers that focus on large-scale, mainstream services requiring regular staff (organizational) have hindered IS models. Again, these factors have been interrelated: foreign ownership and scale-oriented tax incentives have favored large-scale mainstream operations (here: voice call) and promoted the image of SA as a specialized call center hub, making differentiation rather difficult. Only recently, a growing number of clients have shown interest in using SA-based providers to support their local operations, which, however, requires a certain percentage of black staff in operational and leadership positions. Since this requirement benefits mostly black IS staff from urban or suburban impoverished areas, this trend could in fact turn IS models into a more attractive strategic option for SA providers in the future.

**Discussion: Are Hybrid Models a Strategic Opportunity for African Firms?**

Based on the empirical analysis, we now propose under what conditions the adoption of community-based hybrid models can be a strategic opportunity for firms in Africa in more general. Again we use the tripod model (Peng et al., 2008, 2009) as a sensitizing device to structure our propositions. Figure 1 displays the entire model. Importantly, we focus here on what we have introduced as 'community-based' hybrids that rely on resources from local communities and also benefit those communities, while serving business clients both locally and internationally. Besides ISSPs, which we studied here, our findings may be applicable to any sector where hybrid businesses are dependent on community resources: low-cost BoP innovators, like the bamboo bike producer mentioned above, that develop specific products and business ideas in community contexts; or agricultural cooperatives and social-oriented mining initiatives that employ people from local communities while also supporting their livelihoods and giving them additional educational opportunities (Holt and Littlewood, 2015; Senthilingam and Hoeferlin, 2015; Global Exchange, 2016; Harris et al., 2013).

>>>>>>>>>>>>>>> INSERT FIGURE 1 <<<<<<<<<<<<<<<

Our findings suggest that certain economic, institutional and organizational conditions can jointly turn into what we call 'basic resource endowments' supporting the adoption of community-based hybrid models in Africa. *First*, we find, in line with prior research, that both Kenya and South Africa have underutilized local community resources available that may drive the adoption of hybrid models (see also Holt and Littlewood, 2015; London et al., 2010; Page, 2012). In our particular case, the main resource is underutilized labor power from disadvantaged communities. In other contexts, it may be underutilized ideas, technologies, funding, or markets (see Holt and Littlewood, 2015). *Second,* we showed that the availability of community organizations is vital in accessing such communities and in allowing businesses to 'extract' the resources hybrid firms need. Again, prior research has made the point that in particular in Africa such community organizations are important as intermediaries in facilitating social entrepreneurship and hybrid models (Kistruck et al. 2013b). *Third,* our study shows that the utility of such community organizations depends a lot on the ability of businesses to collaborate with them. Ties between businesses and community organizations in many African countries therefore seem critical antecedents of feasible hybrid model adoption.

However, our study goes beyond these basic insights by revealing critical *moderating factors* at the industry/economic, institutional and firm level that may influence the combined utility of basic resource endowments for hybrid models (see Figure 1). In particular, we observed that despite similar resource conditions favoring hybrid models, Kenya and SA differ in the degree to which hybrid models have been actually adopted in the sector we focused on: global business services. Based on these differences we are able to identify critical moderating factors to inform future research.

In terms of *economic/industry conditions*, our findings suggest that, on the one hand, the country image (E1 in Figure 1) – both in the global client and funding community – can affect the feasibility of hybrid models no matter how favorable resource conditions are. Whereas a strong business reputation, like in the case of SA, may lower the acceptability of hybrid models at least among international clients, the image of a country in need of development support, like in the case of Kenya, may not only increase the availability of global funding, but also prompt a larger number of clients to consider social impact as part of their rationale for selecting a supplier from that country. On the other hand, we find that both global and regional client demands and expectations (E2) may affect the utility of resource conditions favoring hybrid models. In particular, we find that highly standardized demand, e.g. for call centers services, works against the adoption of hybrid models, as it drives cost competition with global rivals and increases pressure to increase economies of scale (see also Manning, 2013). This lowers the utility of hybrid models as their dependence on certain community resources may limit scalability (Linna, 2012). By contrast, niche client markets may be more attracted to hybrid models, in particular when niche client demands match the capabilities (and constraints) of hybrid firms, as we described in the case of Kenyan hybrids. We also find that regional clients can be more easily targeted by hybrid models, partly thanks to shared social and institutional environments. In addition, we showed, in the case of SA, that increasing regional market orientation of global clients prompts them – and their local suppliers – to comply with Black Empowerment rules, which supports the hiring of staff from disadvantaged communities in line with the hybrid model.

In terms of *institutional conditions*, we find that both social funding and industrial policies matter for hybrid model adoption. First of all, social funding support (I1) is an important facilitating condition for hybrids to make use of local community resources. In both Kenya and SA local or national funding has been rather limited for IS models. However, global sponsors, such as Rockefeller Foundation and Microsoft, have compensated for that to some degree. Clearly, the image of Kenya as a development hub has further attracted such funding opportunities. Yet, to what extent external funding can sustainably support the adoption of hybrid models is an important, long-debated question (see also London et al., 2004, 2010) beyond the scope of this study. A second important component, according to our findings, is the focus of national industrial policies (I2). One important constraint for hybrid models in SA, in the context of business services, has been the strong focus of industrial policy and related tax incentives supporting employment in mainstream business services, especially large-scale operations catering to global clients. This has led firms to develop capabilities that can keep up with global competition and global client standards, rather than developing more niche-oriented hybrid models. Even though the Kenyan government has not supported hybrid models directly either, its focus on small and local business development has indirectly benefited hybrid models.

Finally, our findings indicate that certain *firm resources and capabilities* either lead firms to utilize or 'ignore' resource endowments supporting hybrid model adoption. On the one hand, we find that the origin and ownership structure of firms (F1) matter. First, locally grown firms are more likely to have established local community ties to make effective use of locally available resources, partly to compensate for lack of financial and other institutional resources, and to better compete with global players. This finding is in line with prior research emphasizing the strong local embeddedness of many businesses in Africa (Rivera-Santos et al., 2015; Holt and Littlewood, 2015). Conversely, we find that globally operating firms with subsidiaries in Africa are likely to utilize these subsidiaries for either tapping into specific resources or for catering to specific clients they cannot serve as well from other locations. For example, foreign providers in SA would primarily use SA operations to cater to UK call center clients. This rather high degree of specialization, in competition with other locations worldwide, limits the utility of hybrid models which are much more interdependent with available local community resources and needs. On the other hand, we find that firm size and capabilities matter (F2). Large size allows firms to generate economies of scale and scope and compete in mainstream markets for standardized products and services, favoring regular business models. This is the situation with SA call center operations. By contrast, we showed with the example of Kenya, that smaller size lowers perceived chances of competing with global peers and prompts firms to develop more custom, niche capabilities, which opens opportunities for hybrid solutions. Industrial policies play a key role in creating incentives for either developing large-scale/standard or more niche capabilities, whereby these policies are partially driven by the structural properties of national firm populations.

**Implications for Future Research**

Our study has important implications for future research in particular in three areas: catch-up processes and firm strategies in latecomer economies; hybrid organizations; and global business services. First, we inform the debate on *catch-up processes and firm strategies in latecomer economies* (Altenburg et al., 2008; Lorenzen and Mudambi, 2013; Hoskisson et al. 2000). To begin with, we have emphasized the importance of looking at catch-up as a multi-level process, where national economic policies interact with industry dynamics, firm capabilities and strategic choices. Based on this idea, we used the tripod model (Peng et al., 2008) to capture the interplay of institutional, industry and firm-level conditions in promoting certain strategic directions within firm populations rather than others. More specifically, we focused on the potential of hybrid vs. regular business models in helping latecomer economies and their firm populations in general and in Africa in particular catch up with globally differentiated markets. Our example of hybrid models indicates the utility of promoting niche models as an alternative to more scale-dependent low-cost production in mainstream industry segments. The pursuit of niche models promises to be a viable option when the potential to 'catch up' through conventional means, such as upscaling and 'upgrading' (Mudambi, 2008; Gereffi, 1999; Humphrey and Schmitz, 2002), 'technological leapfrogging' (Amiti, 2001) or 'accelerated learning' (Altenburg et al., 2008) may be limited. This is specifically true for African economies which face competition not only from advanced but also from other emerging economies.

Furthermore, our findings suggest, based on the example of hybrid models, that the global and regional competitiveness of firms from latecomer economies can rely on their embeddedness in local communities. Our focus on communities was motivated by prior research suggesting that in particular African businesses are often strongly embedded in local communities (Rivera-Santos et al., 2015; Holt and Littlewood, 2015). In line with this insight, we find that African countries, here Kenya and South Africa, share important conditions – underutilized community resources, community organizations, and business links to such organizations – that favor community-based hybrid business models, such as impact sourcing. Future studies could examine to what extent such community resources also benefit other industry sectors in Africa and beyond. Whereas prior research on emerging economies has often pointed out the challenges of lack of infrastructure, institutional voids, political instability and other factors (Hoskisson et al., 2000; Meyer et al., 2008), we suggest that community ties may in fact be an important, underappreciated location advantage – both for firms originating from these locations and for foreign firms entering these locations. However, the stronger ability of local firms to build and use community links is expected to be a source of liability of foreignness (Zaheer, 1995) for firms entering such markets. In this respect, the notion of community ties may also add nuance to prior debates on the role of 'business networks' (Forsgren et al. 2005) and 'insidership' (Johanson & Vahlne, 2009) as barriers to entry into emerging economies in particular.

However, we also find that leveraging community resources requires both institutional and firm-level openness to using community linkages and serving niche markets rather than more scale-dependent mainstream markets. This may also require a shift of attention from large corporations and their typically more mainstream markets towards more nimble small and midsize enterprises that specialize in serving more locally embedded niche markets. In addition, the growing trend of international social ventures, many of which specifically innovate for and cater to BoP markets (Zahra et al., 2008; Chen, 2012), may motivate an increasing interest in studying processes of setting up and maintaining linkages with communities and community organizations to better serve such markets. In this respect, we expect local governments to gradually shift attention from supporting mainstream global businesses – and related tax incentives – to supporting hybrid and social ventures that make better use of location advantages, while differentiating from global competitors.

Second, our findings inform *research on hybrid organizations* (Smith et al., 2013; Battilana and Lee, 2014), in particular by introducing the tripod model (Peng et al., 2008, 2009) as an analytical tool to better understand hybrid model adoption. Prior research has focused a lot on potential managerial tensions hybrids face in promoting business growth and professionalism while staying true to their social mission (see e.g. Battilana and Dorado, 2010; Clifford, Markey, and Malpani, 2013; Pache and Santos, 2010). We add to this body of research, on the one hand, by specifying 'community-based hybrids' as a particular type of hybrid that is strongly embedded in local communities, while also being potentially able to serve regional and global markets. We encourage future research to carefully study organizational structures, governance modes and operational challenges of this type, which seems to be particularly important in emerging economies. On the other hand, we provide a more context-sensitive understanding of the feasibility of hybrid models, by looking at the interplay of economic, institutional and firm-level factors supporting or constraining hybrid models, based on the example of ISSPs. Specifically, we identified critical resource endowments driving the adoption of community-based hybrid models – underutilized community resources, community organizations, and business ties with these organizations – as well as key moderating conditions that may either support those resource endowments or neutralize their utility.

Also, we demonstrated the importance of looking at local and global industry conditions affecting the feasibility of hybrid model adoption as well as the role of scale. Prior studies have primarily looked at institutional conditions and entrepreneurial antecedents of hybrid models (see e.g. Battilana and Dorado, 2010; Battilana and Lee, 2014), but have largely neglected industry conditions. Specifically, we find that in global business services the market for standardized services that appeal to global clients has matured and is increasingly difficult to enter. Building up large-scale operations is almost a requirement to drive down costs and to take on large client projects. Many smaller providers are disadvantaged compared to larger peers. However, since, overall, business services are still a growing market, and since customer markets and demands keep differentiating, there is continuous 'space' for the co-existence of niche models that appeal to smaller customer segments. This opens the door for experimentation with hybrid models and allows new individual entrepreneurs to enter the industry. Also, from an economic development point of view, supporting a growing community of hybrid and other niche entrepreneurs may to some extent compensate for the limited development impact of any particular firm. In other words, whereas the relatively smaller size of many African firms may be a competitive disadvantage and employment barrier (Iacovone et al., 2013), which has prompted governments to incentivize scaling up, building up a community of smaller-scale niche hybrid players instead may not only reduce competitive pressure from global peers but also generate substantial, potentially even more inclusive employment opportunities.

Third, our findings contribute to *research on the global business services industry* (Ethiraj et al., 2005; Manning et al., 2008, 2015) and the potential of impact sourcing models (Avasant, 2012). First of all, we indicated earlier that impact sourcing may grow into an important market segment within the global services industry, with an estimated market share of 17% by 2020 (Avasant, 2012). This indicates that socially responsible services outsourcing is becoming a growing client for clients. We thereby show how impact sourcing, as a form of that, may be adopted to different degrees: whereas some providers define their entire operation in line with impact sourcing, others may choose to only partially adopt this practice, e.g. in line with specific local resource conditions and client markets. This also adds nuance to latest research on the internationalization of service providers. Whereas prior studies have shown that service providers increasingly globalize and set up hubs with access to relevant resources and in time zone proximity to core clients (Manning et al., 2015; Niosi and Tschang, 2009), our study suggests that foreign providers may be increasingly pressured to 'locally adapt' their operations – to client demands, local regulation, and institutional expectations. One example we gave is a UK-based call center provider that has been pressured by a major global client to develop impact sourcing capabilities in South Africa in order to support the client's local sourcing needs. Beyond client and institutional pressure, the opportunity to boost staff loyalty and keep costs low at the same time, while also signaling social responsibility, may provide another rationale for adopting location-specific impact sourcing as a global service provider.

This in turn raises important questions about the balance of standardization/global integration and local responsiveness in the global services industry (see in general Ghoshal and Bartlett, 1990). On the one hand, global business service providers face continuous pressure to drive down costs and streamline operations while meeting high quality standards in order to stay competitive in a maturing industry (Luo et al., 2012). As we show in our study, this pressure has been a major reason for foreign providers in South Africa to avoid the impact sourcing model, since it would conflict with global mainstream client expectations. On the other hand, increasing commoditization of services is driving both small and large providers to identify new ways to differentiate from competitors, whereby impact sourcing – and related access to underutilized local labor markets and potentially very loyal IS staff – may become an important option. Prior studies indicate that in recent years many providers have tried to mainly differentiate at the global level, e.g. by adopting global delivery models, which involve setting up hubs around the globe to bridge time zones and optimize service delivery for clients (Ang and Inkpen, 2008; Manning et al., 2015). However, establishing such models can be costly and may not be appreciated by all clients (Manning et al., 2015). In view of this, socially responsible and locally embedded impact sourcing may be another viable strategy to differentiate for both smaller and large providers. This may however drive tension between meeting client demand for predictable streamlined service delivery across locations and accommodating location-specific employment and training requirements for IS staff (see also Kannothra and Manning, 2016). Future research needs to unpack these tensions in order to better understand the potential and limitations of hybrid model adoption as a differentiation strategy in global business services.

Our study also has some important implications for managerial practice and policy-making. On the one hand, it may inform firm decision-making, in particular with regard to adopting hybrid models in particular industry contexts. We suggest that in particular those hybrid models which depend on community resources, such as labor and local product ideas, are only feasible if firms have access to such resources through community organizations. However, availability of funding, industry policies, client demands, and firm capabilities may either enhance or diminish the utility of those resources. On the other hand, our study may inform policy-making. Most importantly, we suggest that African governments and business promotion agencies have neglected the market potential of hybrid model. By focusing too much on regular businesses and global client demands, African economies run the risk of becoming subject to fierce cost competition. Instead, we suggest a stronger focus on niche businesses which make better use of Africa-specific local resources and advantages, and which can develop with greater protection from global competitors.

Our study also has some notable limitations. First of all, given data constraints and the rather young trend of impact sourcing, our ability to measure profitability and social impact was limited. In this regard, we acknowledge that there is an ongoing debate around whether hybrid models can actually balance business and social objectives (Porter and Kramer, 2011), or whether there is constant tension between them (Crane et al., 2014). Second, our two-country comparison suggests that heterogeneity in business conditions within Africa may be vastly underestimated. However, more studies are needed to better understand 'varieties of capitalism' within Africa, which may affect our understanding of viable catch-up processes, firm strategies and entrepreneurial dynamics in these countries. Third, even though we were able to collect data across twelve service providers in two country contexts, which allowed us to make interesting theoretical distinctions, we lack more in-depth data for any particular firm case. Nor did we have longitudinal insights into how firms have dealt with institutional, industry and firm-level conditions over time. Also, our theorization of strategic opportunities of community-based hybrids in Africa is limited to ISSPs and needs to be complemented with data from other sectors. We thus encourage future studies to adopt longitudinal designs and compare hybrid model adoptions across different industry contexts – in Africa and beyond.

In sum, we have discussed hybrid models as viable strategic opportunities for firms operating in Africa. While pointing out favorable resource conditions we also emphasized the importance of moderating factors at the industry, institutional and firm level. This study broadens the debate on catch-processes processes and prospects of African businesses in the global economy, which has important implications for future research, policy-making and firm strategy.

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## FIGURES AND TABLES

Figure 1: Tripod factors affecting the feasibility of community-based hybrid models

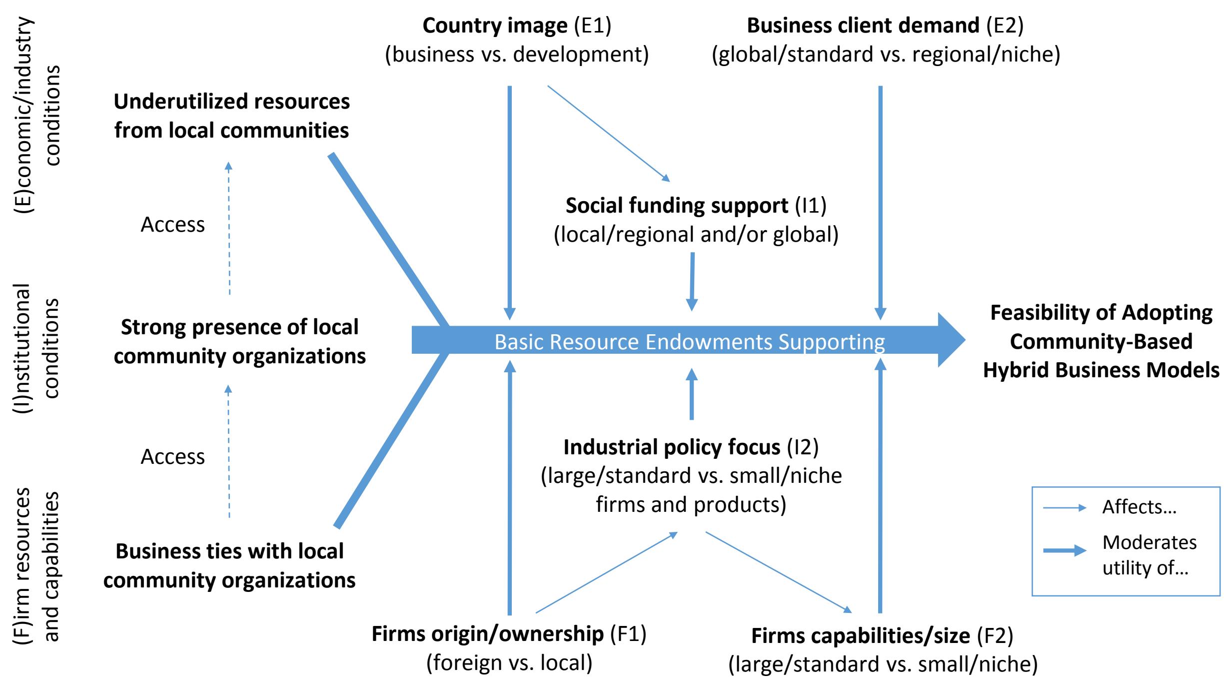

Table 1: Overview of Case Firms (names changed)

| Firm, Country, (Ownership) | Main Clients: industry and location | Services Provided | Operating Model (impact sourcing/regular provider) |
|---|---|---|---|
| **KEI1 (Kenyan ISSP 1)**<br>**Kenya**<br>(Foreign: from Cambodia, Laos) | Domestic and International | e-publishing, digitization and content management (domestic and international clients), field research and product marketing | **Impact sourcing**<br>Operates its delivery center out of Nairobi, employing youths hailing from urban slums, economically weaker sections etc. and some of who are pursuing college degrees along with their full time jobs |
| **KEI2 (Kenyan ISSP 2)**<br>**Kenya**<br>(Domestic) | International clients | Voice and data services, IT enabled services, custom software development and IT training | **Impact Sourcing**.<br>Employs around 400 associates in two locations- Kenya and Uganda. Recruits people from urban slums and poor communities. Helps in developing skilled manpower through community learning centers. |
| **KEI3 (Kenyan ISSP 3)**<br>**Kenya**<br>(Domestic) | Mostly domestic and some international (Africa based) clients. Banking, microfinance and insurance clients. | IT Services, BPO services including data services. | **Impact Sourcing**<br>Recruits from urban slums while maintaining a regular work force. Employees for client facing roles are based out of India, while main operation for BPO services located in Kenya. Runs mobile training bus in urban slum. |
| **SAI1 (SA ISSP 1)**<br>**South Africa**<br>(Domestic) | Local civic governments, domestic telecom, financial service clients. | Voice support, back office support, transcription, | **Impact Sourcing:**<br>Work for study model. Employs students attending a popular management institute graduate programs; students get fee waiver and stipend for working at the ISSP. Sub-contract with larger companies like Aegis, Microsoft etc. |
| **KER1 (Kenyan Regular Service Provider 1)**<br>**Kenya**<br>(Domestic) | Domestic, International | Call center and BPO Services | **Regular Service Provider**.<br>Employs youth both with and without college education; self-identifies as a regular service provider, even though it also runs training programs in slums |
| **KER2 (Kenyan Regular Service Provider 2)**<br>**Kenya**<br>(Domestic) | International and domestic; builds insurance and HR IT applications for clients. | IT services-development and support. Small recruiting division on behalf of other IT companies | **Regular Service Provider.**<br>Domestic operations- software customization limited to Nairobi city. |
| **SAR1 (SA Regular Service Provider 1)**<br>**South Africa**<br>(Foreign: UK) | International and domestic clients; telecom and tech companies. | Customer service (voice and technical help desks), data management services. | **Global regular provider,**<br>**Local impact sourcing**;<br>Subsidiary of UK based service provider. Supports other ISSPs, manages a CSR program for Microsoft. |

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|---|---|---|---|
| **SAR2 (SA Regular Service Provider 2) South Africa** (Foreign: India) | International and domestic; | Customer support service (voice, IT help desk etc.) | **Global regular provider, Local impact sourcing** Regular outsourcing and some impact sourcing in association with other ISSPs. Also operates from other international locations. |
| **SAR3 (SA Regular Service Provider 3) South Africa** (Foreign: Switzerland) | International; airlines, telecom companies from Europe. | Customer support service (voice, tech support etc.) | **Regular Service Provider;** Also operates from other international locations. |
| **SAR4 (SA Regular Service Provider 4) South Africa** (Foreign: UK) | International clients mostly; domestic client- South African government | Customer Support Service. | **Regular Service Provider** Subsidiary of UK based service provider; operates from international locations in UK (consulting) and India (BPO). Some Impact Sourcing as the company employs staff from Moneytla Program of the South African government. |
| **SAR5 (SA Regular Service Provider 5) South Africa** (Foreign: UK) | Domestic and international; telecom and financial services. | Customer service (voice support mainly) | **Regular Service Provider**; Subsidiary of UK based service provider. |
| **SAR6 (SA Regular Service Provider 6) South Africa** (Foreign: UK) | International and domestic. | Legal Process Outsourcing | **Regular Service Provider.** Subsidiary of UK based service provider. |

Table 2: Conditions Affecting Hybrid Model Adoption for ISSPs in Kenya vs. South Africa

<table>
<tr><th>Dimension</th><th></th><th>Kenya</th><th>South Africa</th></tr>
<tr><td rowspan="2">Industry, Economic Conditions</td><td>Similarities</td><td colspan="2">- Underutilizing local labor pool in disadvantaged areas;<br>- Emerging diverse domestic / regional client market<br><br>- Latecomers in the global services market;<br>- Limited global client knowledge of IS and African providers;</td></tr>
<tr><td>Differences</td><td>- Development-focused ‘destination brand’</td><td>- Cultural and organizational ties with foreign markets (e.g. UK);<br>- Mainstream business-focused and highly specialized ‘destination brand’</td></tr>
<tr><td rowspan="2">Institutional Conditions</td><td>Similarities</td><td colspan="2">- Strong presence of local community organizations,<br>- Availability of private and non-profit global IS sponsors<br><br>- Lack of local government funding for IS</td></tr>
<tr><td>Differences</td><td>- No specific incentives</td><td>- Black Empowerment regulation in hiring<br><br>- Tax policies favoring large-scale and globally oriented operations</td></tr>
<tr><td rowspan="2">Firm Resources & Capabilities</td><td>Similarities</td><td colspan="2">- Loyal and dedicated IS staff,<br>- Connections with local training and community organizations</td></tr>
<tr><td>Differences</td><td>- Small/mid-size, locally grown providers,<br>- Niche capabilities serving local and international clients without need for scale<br><br>- Limited brand power and scale vs. global rivals</td><td>- Ability to capitalize on IS specifically for domestic clients<br><br>- Large, typically foreign-owned service providers<br>- Specialization in large-scale mainstream services targeting international clients requiring non-IS staff</td></tr>
</table>

**Bold: IS/hybrid- promoting conditions.**